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Through Private Enterprise

SMALL BUSINESS NEWS

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March 2004



Legislature Near Halfway Mark, No Business Reforms Passed

The 22nd State Legislature convened **Wednesday, January 21**, for its 60-day session lasting until May 6. It is approaching the halfway mark with no business—or education—reforms passed.

Increased taxes and fees, additional employer mandates—and penalties—and more spending have marked the first 30 days. As previously forecast by SBH, majority Democrats have expended their energy to block further gains by Republican Governor **Linda Lingle** and to strip power from the executive branch.

All bills from 2003 were technically still “alive” for 2004 until the first “lateral,” February 20, when they had to pass out of their first committee. Many did not survive that lateral.

Small Business Hawaii has been on top of daily legislative events and emailed business alerts to interested members.

Workers’ compensation reform is a majority priority for small business this year. The Lingle Administration offered a reform bill, HB 2486 / SB 2961, which was heard before Rep. **Marcus Oshiro**’s committee on Tuesday, Feb. 17. Among other things, this bill: establishes a definition for the term “attending

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Let’s all meet at the Sunrise! Small Business Hawaii’s monthly Sunrise Networking Breakfasts held at Macy’s Pineapple Room in Ala Moana Center gives members a change to meet and network with each other. This month’s Sunrise speaker is State Senator Colleen Hanabusa..

Sunrise Features Senator Colleen Hanabusa

State Senator & Judiciary Chair **Colleen Hanabusa** will be the next monthly **SBH Sunrise Networking** speaker this month. She will discuss current issues and their status barriers at the state legislature.

The next SBH Sunrise is **Thursday, March 25**, in the **Pineapple Room**, Ala Moana Shopping Center (Macy’s), **7 – 8:30 am**. The public is invited.

Join our energetic, no nonsense Democratic Senate leader, Colleen Hanabusa and bring a friend or employee to our Sunrise. She will tell you how bad laws and corruption affect your business and what you can do about it. Hanabusa joins SBH’s **Sam Slom** every Thursday morning (except this one!) on KHVH’s **Rick Hamada** Show to give the GOP and Democrat take on current issues.

The SBH Sunrise features a complete buffet breakfast, program, and networking. Free exhibit area too for all participants

The public is welcome—advance paid reservations required. Free parking!

Cost is \$20 for SBH members and their guests (in advance); \$30 for non-members or at the door, if space is available. Complete and mail the reservation form on page 8.



Senator Hanabusa

SBH MEMBER CALENDAR

PHONE 396-1724 • FAX: 396-1726

Wednesday, March 10

SBH Board Meeting

Pacific Club • 12 noon

Saturday, March 13

Amazing Women Conference

Moana Surfrider Hotel • 10 am – 5 pm

Tuesday, March 16

Aiea-Pearl City

Business Association

Pearl Country Club • 12 noon

Tuesday, March 16

JA Hawaii Hall of Fame Awards

Sheraton Waikiki Hotel • 6 – 9:30 pm

Thursday, March 25

SBH Sunrise Breakfast

State Senator Colleen Hanabusa

Macy’s Pineapple Room • 7 – 8:30 am

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CB Bankshares Fights Hostile Takeover by CPB • Pages 5 – 6



Small Business Views

By Sam Slom, President – Small Business Hawaii

Now that homosexual/lesbian marriages have become reality in

San Francisco, Hawaii could leapfrog ahead. Many politicians are so in love with themselves that our legislature should legalize self marriage. Think of the economic benefits

Ho hum, HMSA will raise its insurance premium rates on small business yet again by another double digit (12 – 14%). What's new? Cost drivers include the additional medical mandates added annually by the state legislature. Hopefully, competition here soon. The Democrats suggest state-run medical.

There is still debate about Hawaii's **beverage container deposit tax** passed two years ago but not effective as yet. However, COSTCO started collecting the fee last year—whether you buy soda, beer or water—and then applies the 4% General Excise Tax on top of this tax too. They neglect to tell you how to “return” your containers for a refund. Just the kind of Ponzi scheme the state will play if the tax becomes effective this year.

Then there is still the **gas cap** bill also passed two years ago but not effective until July 1 of this year. It will harm small gas station owners most—especially those on the Neighbor Islands. The Lingle Administration appears to have backed away from an assault on this costly anti-consumer, anti-business measure although a bill from last year is alive (barely) at the Legislature.

Happy 15th anniversary to Roy's restaurant. Chef **Roy Yamaguchi**, our corporate neighbor in Hawaii Kai, is known nationwide.

The state's bank regulator, **Nick Griffin**, last month gave state approval to the proposed CPB hostile takeover of City Bank. The state action follows similar fed approval. See related story on page 5.

SBH member Rep. **Barbara Marumoto** (R-19th), looked closely at the 50th anniversary ad for Japan Airlines first flight to Hawaii and recognized herself in the photo that was actually taken in San Francisco, not Honolulu. Barbara knows because standing with her in front of the plane in the photo was friend **Suzie Kobuchi Okazaki**. Marumoto showed lawmakers the original photo from her scrapbook.

In the movie, “Along Came Polly,” which was partly filmed on Windward Oahu, the honeymoon scene was labeled as the Bahamas. Chinaman's Hat is in Kaneohe, not the Caribbean. “50 First Dates” filmed mostly here.

Lee Cataluna, Pat Hamamoto and Marion Higa. What do they have in common? The Advertiser columnist, DOE Superintendent, and Legislative Auditor have all suddenly been on the attack against Governor Lingle and her policy for change, with aid from the Democrats. No one Democratic male seems up to the task, but three women?

Mel Kahele, combative boss of the Teamsters & Allied Workers Local 996 union, who brought Oahu the bus strike three months ago, now brings the state the current cement strike, crippling the improving economy and booming construction industry. It's a tossup who dislikes Kahele the most: employers or other union members being laid off.

Charley's Taxi chief **Dale Evans** had a nice leadership column written about her in The Honolulu Advertiser last month but the article never mentioned Dale had been named SBH's “Small Business Person of the Year” at our January Annual Conference.

The NFL Pro Bowl will remain in Honolulu for another 5 years. A contract was negotiated by the Hawaii Tourism Authority's **Larry Johnson**. The February 2004 game, the 25th anniversary event in Honolulu, was probably the best Pro Bowl ever played (from a fan's perspective) and thank to Janet Jackson's Super Bowl boob, local entertainers **Amy** and **Willie K.** were showcased at halftime. The state currently pays the NFL \$5.3 million for the game.

A labor bill, SB 2353, that established a new employee cause of action against the employer—for psychological damages in an abusive workplace environment—was quietly put to sleep in committee Feb. 18.

ADWorks and **Becker Communications** will serve as the pro bono advertising and public relations firms, respectively for the Aloha United Way (AUW) campaign for 2004. Meanwhile, the AUW announced that “Company of the Year,” awards went to bank of Hawaii and First Hawaiian Bank for 2003.

State Labor Director **Nelson Befitel** offered a good, workable, omnibus Workers' Compensation reform bill that was met with lukewarm enthusiasm from majority lawmakers. Business needs work comp reform. Hawaii's WC rates are the 3rd highest in the U.S. and unfair. Many businesses also hit by negative changes in liability insurance rates, especially for small contractors.

Business must be at the Legislature. Call SBH or visit our website for alerts.

Amazing Women Conference March 13

SBH member **Deborah Micek** of RPM Success Group, and the recipient with husband **John Paul** of SBH “Small Business Booster” Award at the January 2004 SBH annual conference, again is the principal organizer of the second annual “Amazing Women, Amazing Challenges,” day.

This year's event-packed activity will be held Saturday, March 13 at the Sheraton Moana Surfrider Hotel, from 10 am to 5 pm. For more details contact Deborah at 237-1008.



From the Wall Street Journal

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SMALL BUSINESS HAWAII

6600 Kalanianaʻole Hwy., #212 • Honolulu, HI 96825
Ph. (808) 396-1724 • FAX (808) 396-1726
email: sbh@lava.net

Web: <http://www.smallbusinesshawaii.com>

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EDITOR & PUBLISHER: **Samuel M. Slom**
MANAGING EDITOR: **Malia Zimmerman**
DIRECTORS: **Joyce Edwards, Wayne Fukuda, Michael Marsh, Peter Matsumoto, David Muldoon, Richard Rowland, Jack Schneider, Jim Sharp, Bob Sigall, Sam Slom, Geal Talbert, & John Yanagihara**
COMPUTER GRAPHICS: **Melvin Ah Ching**
POSTMASTER: Send address changes to
Small Business Hawaii,
6600 Kalanianaʻole Hwy., Suite 212
Honolulu, Hawaii 96825.

Small Business Hawaii (SBH), was founded in 1975, by **Lex Brodie**. SBH is a private, independent, non-profit [501 (c) (6)] statewide association of nearly 3,000 business members.

SBH is dedicated to improving Hawaii's business climate, creating a better Hawaii through private, competitive enterprise, and promoting, educating, and effectively representing small business, while advocating tax reduction, lower business costs and job creation incentives to diversify Hawaii's economy.

SBH invites comment small business issues in Hawaii. Send them to Small Business Hawaii by the **10th of the month** for the next issue. Commentaries and news items should be no longer than 800 words; 500 words are desired. SBH accepts advertising only from SBH member firms. Call SBH for details on advertising.

Legislative Non-Action On Business Reforms

Continued from page 1.

physician;" excludes from the definition of "employment" service performed by a member of a limited liability company, a partner of a partnership, a partner of a limited liability partnership, and a sole proprietor; disallows compensation for mental injury or illness (stress) caused by good faith personnel actions; allows an employer to require an injured employee to select a physician from an employer designated healthcare provider list for medical service for the first 120 days of treatment. Limits charges for emergency room services; revises provisions relating to plans of rehabilitation; clarifies when benefits may be terminated if a false claim is filed; validates arbitration agreements and mediation, and allows the Insurance Fraud Investigations Branch to initiate prosecutions and disciplinary actions — something SBH has advocated for 20 years.

Minimum Wage Hike Sought—Again. Each year, union and special interests seek to increase business costs by calling for a raise in the mandated "minimum" (or "living") wage. The federal minimum is currently at \$5.15 per hour; in Hawaii, it is \$6.25. Remember, the minimum wage is really an entry or training wage and most small businesses spend a great deal of time training and giving basic education to new employees. The minimum wage also destroys jobs. Senator **Brian Kanno** (D-Makakilo) held a hearing last month on his bill to increase the minimum annually, tied to the federal COLA or a local price index. The bill passed his committee with only **Sam Slom** (R-Hawaii Kai) voting no.

Abusive Workplace, was the title of another Kanno bill (SB 2353) that would create yet another cause of action for the employee against the employer. No testimony or factual backup was offered.

Substance abusers rewarded, employers criminalized in the original version of SB 3233 / HB 2003, the anti-drug, "ice" bill, heard at a 5 hour Saturday hearing, February 7. This majority Democrat omnibus would fine and/or imprison employers for not providing drug training programs and continued health insurance coverage for abusers terminated for at work drug use. This is the clear trend of the majority: forgive individual excesses; make victims of the undisciplined, and penalize the employers for every governmental failure. The bills were modified prior to crossover but still are top heavy with treatment vs. incarceration.

SB 2588 would increase your employee prepaid health costs even more because the 20-hour per week formula was changed. Senators Slom and Norman Sakamoto (D-Moanalua) teamed up to "kill" the bill in the Labor Committee. Remember, nothing is really dead until the Session ends May 6.

County Tax Bills on Hold During Election Year. The bill (SB 2050) to add a retail sales tax for the counties—in addition to the General Excise Tax—was held in the Senate; the House had pledged "no new taxes" this year. All 51 members of the House and 12 of 25 Senators are up for election this November.

Many good bills were not heard by the majority. Bills that would reduce the burden on employers, provide tax credits for employer mandates, and economic stimulus measures were never scheduled for a hearing. Other bills may be included in measures before they reach Conference Committees in April. Tax and fee bills are still alive and a threat to business, as are further mandates.

Education reform, supported by business, is still the major debated issue at the Capitol. Stay alert for opportunities to weigh in on important issues this month and next. Contact SBH for assistance.



Governor Lingle was among a group of six U.S. Governors making a secret trip to Iraq to inspect and boost the moral of our U.S. Troops serving in the war against terror. She is shown at one of Saddam Hussein's palaces with 4 other governors. PHOTO FROM GOVERNOR'S OFFICE.

Governor Lingle Makes Unprecedented Trip to Baghdad

At the request of U.S. Secretary of Defense **Donald H. Rumsfeld**, Governor **Linda Lingle** joined five other governors from around the nation on an unprecedented, bipartisan mission to Iraq to visit U.S. troops and officials as well as meet with the Iraq Governing Council. The other governors on the trip were **George Pataki** (R-New York), **Dirk Kempthorne** (R-Idaho), **Ted Kulongoski** (D-Oregon), **Tim Pawlenty** (R-Minnesota) and **Kathleen Blanco** (D-Louisiana).

The delegation arrived in Baghdad February 9 and met with Ambassador **L. Paul Bremer**, the specially appointed presidential envoy to Iraq, to discuss reconstruction efforts. The governors also toured parts of the city to assess devastation caused by **Saddam Hussein**, and met with the Iraq Governing Council to discuss the country's new political structure and the council's progress in moving post-war Iraq toward democracy.

"We discussed the challenges the country faces going forward on the political, social and economic fronts," Governor Lingle said during a telephone call to radio station KSSK's Perry & Price show. "his is an opportunity to rebuild the country, and they are very committed to not going back to the kind of regime that previously existed."

The Governor made the call while "breaking bread" with Hawai'i troops stationed in Iraq. She described their morale as "very high," and said she was having a great time, sharing a meal and taking pictures with soldiers in the Bob Hope Mess Tent. "Our soldiers are well trained and committed to the efforts here," she reported.

This was the first visit by statewide elected officials to Iraq since the start of the Iraq War. As commanders in chief of National Guard divisions in their states, the governors made an unprecedented and unified show of support and appreciation for their troops serving in Iraq.

The governors began their trip with a Pentagon briefing conducted by Department of Defense officials, including Lt. General **Steve Blum**, chief of the U.S. National Guard Bureau. The delegation also visited the Pentagon memorial established for the victims of the September 11th terrorists attack.

Cruise Ship Task Force Announced

Maui Mayor Alan Arakawa tannounced the formation of the Mayor's Cruise Ship Task Force.

Made up of representatives from public, private, and non-profit sectors of the Maui Community, task force members have been asked by Mayor Arakawa to explore and address the impacts of accelerating cruise ship activity on Maui.

"I've asked the Task Force to take a comprehensive approach to evaluating the impacts of the industry," Mayor Arakawa said, "and to consider the economic, environmental, socio-cultural, and infrastructural concerns the cruise industry poses for our community."

Members of the community who have agreed to serve on the task force include: Jeanne Skog, Maui Economic Development Board, Inc.; Maui County Economic Development Coordinator Lynn Araki-Regan; Maui Chamber of Commerce's Lynne Woods; Maui Visitors Bureau Executive Director Teryl Vencle; Maui Hotel Association Executive Director Lani Correa; Mayor's Executive Assistant for Environmental Concerns Rob Parsons; Stacia Bobikevich, Sierra Club; Theo Morrison of the Lahaina Town Action Committee; Sean Lester, Maui Tomorrow, Carol She of DLNR, Harbors District Manager Thomas Scott Cunningham, Jocelyn Perreira of Tri-Isle Main Street Resource Center, Don Medeiros of the County's Department of Transportation, Sydney Kikuchi of Maui Police Department, State Representative Brian Blundell and Governor's Liaison for Maui County George Kaya.

For further information, contact OED Coordinator Lynn Araki-Regan at 270-7710.



Gordon Trimble is a State Senator from the 10th Senatorial District. Shown here on the opening day of the 2004 Legislature.

Thoughts on Bureaucracy

During a February Senate floor session State Senator **Gordon Trimble** (R-Waikiki) made a point of personal privilege regarding state bureaucracy:

In our deliberations we must remember that a bureaucracy is organic. It is a living organism. Whether it is animal or vegetable is up to us. But once we create it, it has a very predictable set of behavioral patterns. Its drive to grow and reproduce is only surpassed by its will to survive.

Whether this bureaucracy is akin to mushrooms sprouting from a dung heap or a giant African termite colony or Bessie the cow that yields sweet milk and thick cream depends upon the reward structure that we establish.

The current reward structure, rewards only failure with greater allocation of our scarce resources.

I stopped applauding day before yesterday when it became apparent that this bureaucracy while delivering new and impassioned words was defending itself as it has done for the past generation.

I have worked in this bureaucracy for close to 30 years. Let me assure you that when people resort to blaming the Department of Accounting and General Services, when they place their failure on Budget and Finance or the Attorney General Office they are merely acknowledging their failure to understand what it takes to collaborate.

The term collaboration to them means that we have a meeting and at the end of the meeting the staff agencies acknowledge the error of their ways and agree with me.

I have over 20 years of direct experience in working with Budget and Finance, DAGS and the Attorney General's Office. These are staffed by individuals that are not only highly-qualified professionals but individuals who are every bit as dedicated as these in the Department of Education.

I have never met a bureaucrat that could not give a reasoned explanation as to why he failed. The larger the failure the more elaborate the explanation. They want you to accept why they, and in fact anyone, could not succeed. We need to cut through the rhetoric.

Continued on page 6.

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CB Bankshares Uses Political Clout, Unusual Media Campaign to Thwart Hostile Takeover by Competitor

By **Malia Zimmerman**,
HawaiiReporter.com

When president and chief executive officer of City Bank Ron Migita spoke out for the first time about the hostile takeover attempt of parent company CB Bankshares by Central Pacific Financial Corporation, he accused his competitor of "disrupting the harmonious relationship" between the two banks. "I can assure you, this is not how we do business in Hawaii," he said at an April 2003, press conference. "For someone like me, born and raised in Hawaii, we work on a cooperative basis. It's not our culture to be hostile or strong-arm."

This curt statement by Migita was a warning of the wrath to be unleashed by Hawaii's old boy Democrats in power for 40

years, on Central Pacific's Chairman, CEO and President Clint Arnoldus, who they portray as an outsider.

Unfortunately, Migita was right. Arnoldus, who took over Central Pacific Financial and Central Pacific Bank two years ago, did not understand the way business often is conducted in the 50th state. Migita, whose company, the fourth largest bank in Hawaii with \$1.2 billion in deposits in 22 City Bank branches, is using all of its political clout to fend off what should be a debate over profit.

Central Pacific, the third-largest bank in Hawaii with \$1.7 billion in deposits in its 25 branches, would control \$2.9 billion or 14 percent of all state deposits should it be successful in acquiring CB Bankshares, the parent company of City Bank, for cash and stock currently valued at \$300 million. Rather than sticking to finances however, directors of CB Bankshares are waging a strategic campaign of media and masterful political strategy that could not only thwart the takeover, but undermine all publicly traded companies in Hawaii by severely diluting the power of shareholders.

The problem is most Hawaii media and politicians see nothing unusual about the exceptional tactics by CB Bankshares to spoil the takeover attempt. In fact, they view Central Pacific Bank as the big bad business primarily because of a public relations campaign by CB Bankshares that portrays City Bank employees as victims and customers as getting a bad deal. CB Bankshares also has brazenly used prominent politicians on their payroll to slow the hostile takeover attempt — House Speaker Calvin Say, D-Kalihi, is a compensated City Bank trustee, and Senate Ways and Means Chair Brian Taniguchi, D-Manoa, is a City Bank attorney. Although they deny it, these powerful Democrat lawmakers and their allies are using their clout to forward legislation that helps CB Bankshares directors and hurts all of Hawaii's publicly traded corporations.

SB 2435 and HB 2552 eliminate any obligation of the board to call a special meeting of shareholders to vote on a proposed acquisition of controlling interests in Hawaii public corporation. The state Department of Commerce and Consumer Affairs, whose Securities Commissioner Ryan Ushijima testified in opposition, says the legislation only allows for one takeover proposal to be enter-

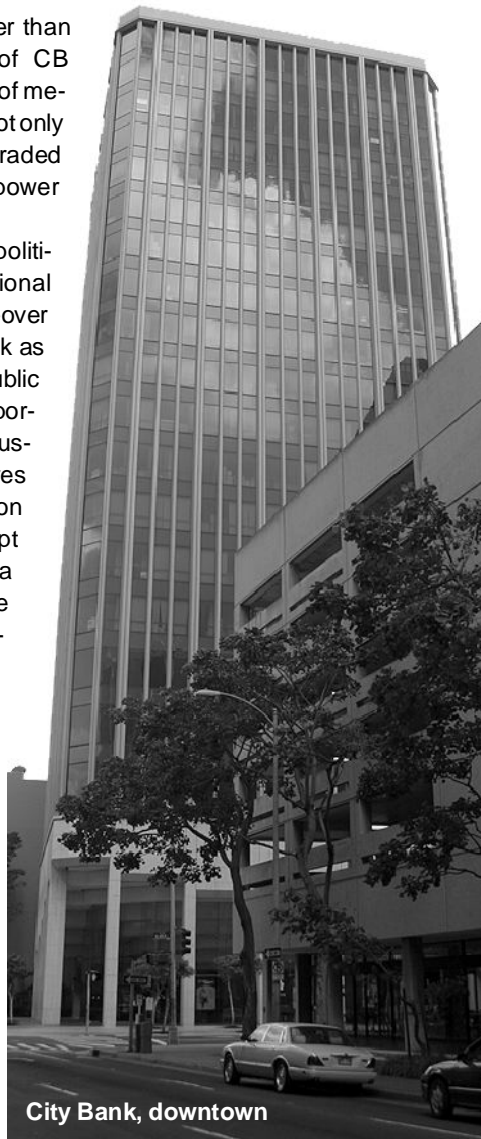
tained within any given 36-month period. "This interferes with what generally happens in the market because many takeover bids often involve the subsequent offering of higher prices to get enough shareholders to buy in," Ushijima said. "The law deprives the opportunity for shareholders to consider these subsequent bids and represents a dramatic governmental intervention in otherwise commonplace corporate takeover proceedings."

Especially intriguing to many observers is the way the CB Bankshares directors are fighting this battle. At least three of the CB Bankshares board members including Say are board members of the Daihonzan Chozen-Ji/International Zen Dojo, a Zen Buddhist

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Central Pacific Bank, downtown



City Bank, downtown

City Bank vs. CPB

Continued from page 5.

temple in the remote valley of Kalihi. Surrounded by a dense emerald forest, steep plush mountains, and fronted by black Buddhist statues on a vast plot of pebbles of the same color, some of Hawaii's most influential Democrats congregate at the Dojo. Here high-ranking Democrat politicians and well-known political strategists practice a combination of meditation, martial arts and political strategy. Democrats allowed to visit the grounds say loyal followers view themselves as Asian warriors - CB Bankshares is a current battle.

Ironically Hawaii's publicly traded corporations potentially at risk have so far been unwilling to get involved. The governor's cabinet and some Republican lawmakers have stood alone in opposition at the Legislature. Republican Gov. Linda Lingle is opposed to interfering with the hostile takeover attempt, despite CB Bankshares' public relations campaign enthusiastically encouraging its customers and employees to ask her to take action.

To expect any different from Governor Lingle would be to assume that she would break her promise to voters made when she was elected governor in 2002 as the first Republican in 40 years. What she set out to accomplish is significant — boost business and economy, rid the State government of its notorious corruption and waste, and restore the public trust. Business in Hawaii has traditionally had to overcome the fourth highest overall tax burden, 17,000 pages of rules and

regulations, burdensome mandates, and a necessity to "pay to play" with politicians for government contracts. As the Small Business Survival Index documents, Hawaii is the most hostile place to operate a business in America.

State Financial Institutions Commissioner Nick Griffin announced last week he will not disapprove of the proposed acquisition, despite the more than 100 City Bank supporters who testified in opposition at a December 2003 hearing. His decision comes after the Federal Reserve Board gave its blessing. Now the fate of the two banks will be made by shareholders of both companies and the courts, unless the CB Bankshares' directors are successful in stopping the merger with this legislation.

Shareholders on both sides say there will be more turmoil should the legislation pass, including lawsuits against the CB Bankshares directors and lawmakers and shareholders pulling capital from Hawaii's publicly traded corporations, and be a major step backward in the governor's plan to "open Hawaii for business."

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Got a business story? Send it to us as a Microsoft Word RTF file or plain text to **sbh@lava.net**. You may see your story printed in the next edition of **Small Business News**, online at our website or both!

JA Hawaii to Induct 6 Business Laureates

Junior Achievement of Hawaii has announced this year's Hawaii Business Hall of Fame Laureates. The JA Hawaii program was started in 1990. SBH serves on the nominating and judging panel along with other major business organizations.

This year's Laureates will be honored at a dinner, **Tuesday, March 16 at the Sheraton Waikiki Hotel, 6-9:30 pm.**

New JA president, **Eva Laird Smith** announced the 2004 Laureates:

David S. DeLuz, Sr., Chairman of David DeLuz, Sr. Enterprises (a Big Island auto dealership); **Linda Fernandez**, president and CEO, Fernandez Entertainment and her late husband **Kane**, pioneers in the carnival and family entertainment industry, **Donald H. Graham, Jr.**, developer and principal, GMR LLC (also known as "the Father of Ala Moana Center"), **Michael H. Lyons II**, former Sr. VP, Bank of Hawaii and well known Maui philanthropist, the late **Christopher B. Hemmeter**, noted resorts developer and **James "Jim" S. Romig**, Founder and CEO, Hilo Hattie, a subsidiary of Pomare, the world's largest manufacturer of Hawaiian and island lifestyle products.

The Senate and House will honor the Laureates on Monday, March 15. The much awaited Hall of Fame kiosk, a collaborative effort with the University of Hawaii-Manoa will be unveiled Saturday, March 13.

Tickets for the dinner are \$75 per person but special table and sponsor support is available. For reservations and information call Junior Achievement at 545-1777.

Thoughts on the Bureaucracy

Continued from page 5.

It matters not what excuse is given. Ignore the noise. Our job is to seek out and promote those individuals who succeed in spite of the system and listen to their ideas on how to produce even better results.

The answer is not more power and more money swallowed up by the system of governance. The solution in understanding the nature of the bureaucracy we have before us so that we can create a reward structure that will transform the bureaucracy into something that produces the desired results that are of course measurable.

Our deliberations must be thoughtful and reflect the full diversity of opinions that are assembled in this august body.

I, Mr. President find that my ability to carefully consider the ideas and expressions of my colleges is being unnecessarily constrained by a sound system that seems to be more appropriate for a karaoke bar than a senate chamber.

I now understand the necessity for the frequent and lengthy recesses by the majority. This is what they must do to be able to hear the thoughts of their colleges rendered unintelligible by our sound system. This system interferes with the voters right to unfettered representation. Mr. Present I request that I too be allowed to join you, not to speak, but to be able to hear the thoughts of my colleges so that I can more dutifully execute the responsibilities of my office.

Tune into SBH TV Our Monthly Television Show

Councilman **Charles Djou** will be the next feature on SBH TV, Small Business Hawaii's monthly television program aired on Olelo Cable Channel 54. Djou spoke at January's SBH Sunrise Breakfast before a packed house about city responsibilities, the council and where all the money is spent.

SBH TV airs every Sunday night on Channel 54 at 7:00 p.m. Go to our website for additional information and weekly showtimes and guest lineup.

SBH TV is produced by member **Jerry Stanfield** of Video Flair.

Reinventing Education in Hawaii – New York Style

By **Laura Brown**, HawaiiReporter.com

A Hawaii Reporter editorial written by Rep. **Marilyn Lee**, D-Mililani, revealed the source of the current rhetoric being used by the Hawaii State Teachers' Union and Superintendent of Schools **Patricia Hamamoto** to support Hawaii's centralized education system. She states that **Tony Wagner**, co-director of the Change Leadership Group at the Harvard University Graduate School of Education, held New York City up as a shining example of centralized education that works in his presentation on "Reinventing America's Schools" to legislators, educators, and concerned members of the community at the State Capitol on Monday, Nov. 17, 2003. Mysteriously, Hawaii Reporter attended that presentation only to find a sign on the door that the meeting was cancelled. Wagner, scheduled to appear at U.H. that same evening, cancelled "due to illness" according to event coordinators.

Whether Wagner met with members of the legislature or not, his dialogue about "reinventing" an education system that is "obsolete" without "adding an extra layer of bureaucracy" with local school boards was lifted by the superintendent and regurgitated at her address to the Legislature last week, while emphasizing the absolute need to retain the current bureaucracy.

Providing anecdotal evidence to support the superintendent, Rep. Lee recounts her recent visit to two New York City schools that have "no library, no gym and no science labs", much like Hawaii's schools. However, one NYC school had something Hawaii schools do not-fresh paint. Also, the NYC school boasted a 70 per cent rate of students who go on to higher education, even though the student body was 99 percent minority. They also had formed an alliance with a local business and had initiated a mentoring program. Another NYC school offered college level courses for 16-year-old students. The principal told Rep. Lee that the recent centralization prevented micromanagement of his school because of the "distance" between the school and the DOE. Rep. Lee concludes that perhaps Hawaii should look at dividing large high schools into small schools like New York's.

Is New York City a Model for Success?

Aside from a discussion of turning

Hawaii's factory-like high schools into schools-within-schools, quadrupling teacher and staff requirements and costs, is Mayor Bloomberg's takeover of New York City schools working?

Test scores from the 2003 – 2004 tests won't be available until September 2004 at the earliest, so the verdict on student achievements still out.



Laura Brown

Ominously, the Deputy Chancellor for curriculum and instruction, Diana Lam, is said to be a proponent of "whole language and fuzzy math", both of which have led to disastrous test scores in Hawaii's schools. The most current data does not show any meaningful improvement to date. More details at this URL:

http://www.nyc.gov/html/ops/downloads/pdf/2004_mmr/0104_mmr.pdf

According to sources, when Mayor

Continued on page 11.

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SBH members heard Councilman Charles Djou at January's SBH Sunrise breakfast. Last month, author Bob Sigall spoke about his book, "The Companies We Keep."

Sunrise Subscription Saves \$\$ for Members

Member **Brian Zinn** suggested in late January a new "**SBH Sunrise Subscription**," whereby members and their guests could sign up and reserve early for the monthly (last Thursday) Sunrise Networking Breakfast at the Pineapple Room (Macy's Ala Moana) for the entire year—and save money.

Members embraced the idea and paid for 10 months (In January) and got the 11th month free. The advanced reserved cost is \$20 per meeting. You can still sign up for the remaining network functions (March-November) for \$160 (pay for 8 months and get 9 months) **if you do so by March 1.**

Call Amee at the SBH office, (808) 396-1724 for details.

Standard Parking's New Airport Approach

Member **Michael Miller**, Sr. VP of Standard Parking, announced that luxury is what Standard is making a part of its new Park Air Express at the Honolulu International Airport operation. "With all the stress related to travel, we want to make this part of it worry-free," Miller said.

The new facility is at 550 Palea Street (above the Airport Trade Center). The 24-hour secure parking facility offers a \$6 daily rate (\$10 at the Airport) and express car pick-up and drop-off. For information call (808) 532-2670.

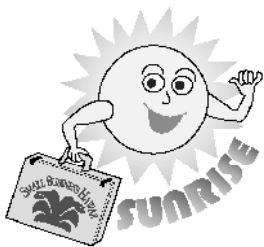
Standard Parking Corporation is a national leader in parking management services with more than 11,500 employees in 275 cities and 43 states.

HWBC Offerings

The Hawaii Women's Business Center (HWBC), part of the SBDC at 1041 Nuuanu Avenue in Chinatown, will be offering several valuable workshops during March. Fees apply :

- Tu 3/9 9am-4 pm, State and Fed Taxes;
- W 3/10 9am-3pm, Listening to Your Biz;
- M 3/22 9 am -1 pm, Biz Proposal Writing;
- March 10 - May 29, "FastTrac™ Take Charge of Your Business Series"

All workshops are at the HWFC office downtown. Phone Oliv'e at (808) 522-8136 for details.



SBH SUNRISE

Thursday, March 25, 2004 • 7:00 – 8:30 a.m.
Pineapple Room, Ala Moana • Breakfast / Free Parking

Speaker: **State Senator Colleen Hanabusa**, D – 21st District
"Issues and their status barriers at the 2004 State Legislature"

Reservations made in order received at SBH. No tickets mailed – pick up at registration desk Mar. 25. Your guests are welcome at member price. Refunds until Mar. 23.
Advanced Paid Reservations Required by March 24.

Complete Breakfast Buffet and Free Parking (Macy's, Ala Moana 4th floor) Included

Name _____

Firm Name _____ Phone _____

Address _____ City/Zip _____

My Guest(s) _____

(Firm) _____

Enclosed is my check for* \$_____, for _____ (number) people
@ **\$20 per member** and their guest(s) who pay in advance.*

Clip and mail with a check to "**SBH Sunrise**" to:
Small Business Hawaii, 6600 Kalaniana'ole Hwy. #212
Honolulu, HI 96825 PH (808) 396-1724 FAX (808) 396-1726

*The charge is \$30 for non-members, and at the door, provided space is available.

Business Practices Change Warrants Tax Change

By **Lowell L. Kalapa**
Tax Foundation of Hawaii

In the old days, and yes it is all relative, when plantations ruled the landscape of the territory and then later as a state, workers worked for the big companies be it a sugar plantation, a pineapple plantation or perhaps a cannery. And of course there were the big department stores and the utilities and financial institutions.

These large employers were vertically integrated in that they had every department from transportation to infirmaries to employee cafeterias, and in the really old days, housing. Today, the vast majority of businesses in Hawaii have fewer than ten employees. In many cases, these small businesses do not have the resources to do their own book-keeping or for that matter providing all the paperwork required by various government agencies to be in business like the payment of health care benefits or various required insurance coverages like workers' compensation and temporary disability benefits.

To the rescue has come a new way of providing employee administration including the payment of wages and benefits as well as withholding of taxes for employees. Called professional employment organizations these relatively new types of organizations grew out of what many remember as temporary employment agencies. These were companies to which businesses turned if they had a sudden surge in business or if a regular employee got sick or took vacation time off.

Professional employment organizations (PEO) literally take over the employment of persons who have been working for a particular small business or will be hired by the

small business and they administer the payroll and benefits for the employees. Technically those employees become employees of the professional employment organization. The business for whom these employees work determines how much employees will be paid, the kinds of benefits afforded the employees while the PEO executes the policies and guidelines set by each business.

The business then reimburses the PEO for all costs incurred for the employee such as the salary or wages paid, the employee benefit premiums, and the various types of insurance coverages required by government. For all of this, the PEO charges the business a service fee to cover its cost for administering the wages and benefits.

The problem that PEOs have encountered is that this arrangement is not a tax exempt cost of reimbursement because a service fee is charged in addition to the amounts that are disbursed to employees and the various companies providing the employee benefits. Thus, the PEO has to pay the 4% general excise tax on not only its service charge or management fee, but also on the amount that is reimbursed for salaries and benefit premiums.

This is not a new issue. Measures have been introduced into the legislative hopper over the past six years to exempt the amounts that represent reimbursed wages and salaries and disbursements for employee benefits. But in every attempt, each try has met with failure. This despite the fact that a similar exemption was afforded to hotel management companies and orchard growers.

The hotel management company exemption was enacted more than ten years ago when it was realized that many national

chains, such as Sheraton or Marriott, actually operated a property on behalf of the owner of the hotel. The management companies employed the housekeepers, bellmen, waiters, and waitresses. However, because the money taken in as room rentals for the hotel rooms or payments for meal services in restaurants went first to the owner of the hotel, the 4% general excise tax (and the 7.25% TAT on the room rentals) was paid by the hotel owner. The hotel owner then turned around and reimbursed the management company for the wages and benefit payments made to the employees or the benefit companies and then paid a management fee to the hotel operator.

Thus the 4% was paid twice on amounts that had the hotel operator also been the owner of the property would have had to pay only once. The legislature granted that exemption and a subsequent one to orchard operators and telecommunication companies because they recognized that this type of arrangement allowed a sense of stability and consistency for workers.

Much of the opposition in the past has come from unions who see this type of an arrangement as thwarting possible union organizing. However, continued opposition to this type of arrangement actually works against the creation of new businesses and new jobs. Times have changed and so should the tax law in this area.

Lowell Kalapa is the President of the Tax Foundation of Hawaii. Mr. Kalapa's commentary is printed each week in the Maui News, West Hawaii Today, Garden Isle News, and the HawaiiReporter.com

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Prudent City Finances

By **Jack Schneider**, J.S. Services, Inc.

The Sunday, Feb. 1, 2004 issue of The Honolulu Advertiser ran a story by USA Today headlined "Pittsburgh battling to avoid bankruptcy."

One statement grabbed my attention. It read "Debt payments consume nearly 20 percent of the budget — two to four times what fiscally prudent cities pay."

Now I remember being informed that the City of Honolulu had a Debt Service above 17 percent and climbing.

How come the mayor and the City Council consider this fiscally responsible and prudent? Pittsburgh and USA Today certainly do not.

Are we to follow down the slippery slope that Pittsburgh is currently on?

Jack Schneider is chairman of the Board of Directors of the Grassroot Institute of Hawaii and vice president of Small Business Hawaii. Reach him via email to jschn@lava.net.

Real Estate Tips for Small Business

By **Walt Harvey** (R), ABR, CRS, GRI, SRES, ePRO

Tax time is looming! Not our favorite subject but since real estate is one of the last great tax shelters a discussion seems timely.

Three caveats are in order. One: a real estate broker is the person qualified to advise on real estate transactions. If you desire legal or tax advice, consult an appropriate professional. Two: never make a decision solely on the tax consequences. I'm not sure who said that but it makes sense. Three: Federal tax codes differ from Hawaii State tax codes. Again, consult with your tax professional. Having made those disclosures, let's consider how real estate can reduce your Federal tax burden.

The government has determined that home ownership is a good thing. In general, homeowners tend to bring stability to an area. They tend to make improvements on their homes, thus benefiting the local economy. Homeowners tend to take more of an interest in their neighborhood, the local schools, the Neighborhood Boards and they tend to vote. So the government has given homeowners a tax advantage over renters. Property taxes and the mortgage interest are deductible on Schedule A. Many times, depending on your tax bracket, this deduction may offset the difference between owning and renting. (Again, consult with your tax advisor).

In a rising market, home values increase and a benefit of home ownership is the ability to tap equity when needed for business expansion, home improvement, college education or anything you want. In a declining market remember, we all have to live somewhere! Ride out the cycle, it always changes sooner or later. In recent years, many homeowners have earned more in equity appreciation than they learned in their business or their jobs.

Best of all, the Federal rules allow you to sell your primary residence and keep up to \$250,000 profit (if single) or \$500,000 (if married) tax free! No rollover requirements, no age requirements and you can do this every two years! Consider the possibilities of buying a fixer upper, moving in and improving it and selling in two years. The profit, including sweat equity is tax free, subject to the limitations above. For the home to qualify as a primary residence you must own and live in it for two of the last five years. Ownership alone does not qualify, you also must have lived in the home.

Walt Harvey is a real estate broker with East Oahu Realty and works with his wife Arla. Visit their website at <http://www.coastalhawaii.com> or send him an email to: walt@coastalhawaii.com.

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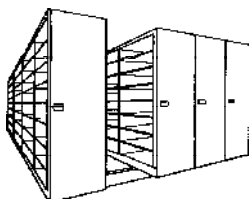


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Reinventing Education in Hawaii Continued from page 7.

Bloomberg took over, the NYC school system was rife with political patronage. Upon reorganization, those receiving the patronage struck back using their "pawns who held administrative positions". In a similar manner, when Hawaii's Governor **Linda Lingle** proposed breaking up the centralized DOE in favor of local school boards, the superintendent was propped up at a podium surrounded by what some describe as "the old boy network".

Comparing New York's Centralized Governance Structure to Hawaii's

New York City's new education governance structure looks remarkably like Hawaii's current structure only bigger. There are 10 regions, each with 120 schools. Each region contains 2, 3 or 4 Community School Districts. These are much like Hawaii's 7 districts. 10 regional superintendents lead the regions. Hawaii currently has 14 complex-area superintendents. Each regional superintendent supervises 10 -12 Local Instructional Superintendents (LIS). This represents a level of bureaucracy not yet achieved by Hawaii. The LIS supervise 10-12 school principals, in effect, acting as "super-principals." 32 LIS are Community School

District Superintendents overseeing the Community School District Office and link with Community School Boards and parents. The question is how many superintendents (at \$120,000 per year salaries each in Hawaii) should it take to oversee a school system? Mayor Bloomberg's school system is reportedly running into major problems that include a rerun of a failed student retention program, threatened loss of federal funds due to lack of a research-based reading curriculum, lack of mandated special education programs, discrepancies between the more stringent 4th and 8th grade tests vs. the "relaxed" 3,5, and 6 grade NYC DOE tests and the "pushing out" of high school students who won't be able to pass mandated high school Regents subject-level tests.

These are all things Hawaii won't have to wait for—we have already arrived. And if the superintendent and Democrat controlled Legislature has its way, that is where we will remain.

Laura Brown is the education reporter and researcher for HawaiiReporter.com and the education policy analyst for the Grassroot Institute of Hawaii. She can be by email at laurabrown@hawaii.rr.com

The Small Business Person's Prayer

EDITOR'S NOTE: Each year at our Annual Conference in January, Director **Dick Rowland** gives the lincheon invocation, "The Small Business Person's Prayer." Many members asked to have a printed copy of the prayer.

May each of us, with the help of a just and loving God, arrange our life and thoughts so that we each have the following:

Enough Happiness to keep us sweet.

Enough trials to keep us strong.

Enough sorrow to keep us human.

Enough failure to keep us humble.

Enough success to keep us eager.

Enough friends and family to give us comfort.

Enough faith to give us courage to discover more and better ways to serve our customers.

Enough wealth to help each of us achieve our lifetime callings, and to lend a helping hand to those who have stumbled along the way.

Enough determination, toughness, and strength for each of us to make each of our days a good day as we govern ourselves.

And enough tolerance and understanding to avoid the temptation to govern others, as we lead by example with a resolve that comes from within each of us.

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Attached is my check for \$_____ (regular annual membership dues are \$175; \$300 for 2 years). I understand my payment is tax deductible [IRS 501 (c) (6)]. Billing is annual on the anniversary of my last payment. Ten dollars of my annual membership is allocated for a subscription to the monthly Small Business News. I am applying for membership and understand SBH does not sign up anyone for medical or benefits only; I agree to actively support the goals of SBH and actively participate in SBH activities. I certify that all information on this form is current and accurate.

PLEASE TYPE OR PRINT

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I Do ☐ **DO NOT** ☐ wish to be listed in the annual SBH Referral Directory. Category: _____

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SIGNATURE: _____

Automated Refund Information & Mainland Audits

By **Kurt Kawafuchi**, State Tax Director

I'd like to talk about two things this month.

First, we recently implemented a new telephone system that allows you to get automated individual income tax refund information 24 hours a day, 7 days a week.

Previously, you, along with many other taxpayers, had to call during business hours and wait for a live representative. Not any more!

Automated refund information should be available 4 to 6 weeks after you file your return and is updated daily.

Just call our Oahu Taxpayer Services Branch from a touchtone phone at 587-4242, or toll-free at 1-800-222-3229. Press 1 to access the menu of options, and then press 3 to select refund information.

When prompted, enter your social security number. If it matches an account that is on the refund information file, you will then be prompted to enter the amount of your refund followed by the pound (#) sign. If the refund amount you enter matches what is on the system, you'll hear automated information about the status of your refund.

If your entries don't match, you can enter a different social security number, return to the main menu, or if during business hours, speak with a customer service representative.

Second, Small Business Hawaii Vice President, Jack Schneider, had an article posted on the Internet last month. In it, he wrote that the Tax Department is not pursuing mainland companies that are doing business in Hawaii and not paying Hawaii taxes, and that he wants me to "go get 'em."

Local businesses should rest assured that my department has been pursuing mainland companies for a long time.

All of our senior field auditors have mainland companies in their audit inventories. In fact, we audit both mainland and local companies to ensure that everyone pays their fair share, because any company that should be paying Hawaii taxes and isn't places their law-abiding competitors at a disadvantage.

If you suspect a company of not paying Hawaii taxes, let us know. Call our Taxpayer Services Branch (anonymously if you wish) or e-mail them at Taxpayer.Services@hawaii.gov with any evidence. If you prefer, e-mail my office at Tax.Directors.Office@hawaii.gov.



Courtesy John Pritchett as published at pritchettcartoons.com



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6600 Kalanianaʻole Hwy., Suite 212
Honolulu, Hawaii 96825
Phone 396-1SBH (1724)
www.smallbusinesshawaii.com